

Testimony by Rep. David Price
Sales and Flat Tax
Budget Committee
October 6, 2004

It is an honor to be able to testify today before this committee. I'd like to begin by saying that there is no question in my mind that the U.S. tax code has become excessively complex and convoluted. The IRS estimates that it takes the average American over 28 hours to complete a tax return. I believe most Americans would accept a basic tax reform bargain: fewer deductions and credits for lower rates and a simpler system. And I had hoped that with all the focus on taxes these past few years, Congress would have done something to simplify our tax code. Instead, the changes to the tax code during the past four years have made it more complex and less fair.

At the heart of the proposals before us today is whether or not the United States will have a progressive or regressive tax system. Particularly in the midst of a sluggish economic recovery, there are strong arguments for a progressive tax that puts more money in the hands of those most likely to spend it and stimulate the economy. But ultimately, this debate is about values.

I was brought up believing that from those to whom much is given, much is expected. That principle, at the heart of a progressive tax structure, has guided our tax system throughout America's most prosperous economic years. A progressive tax is sound economic policy, and it is indicative of an advanced and enlightened society where those who have reaped the benefits of living in a free, stable, and prosperous land understand their obligation to contribute to the common good.

The problem with the flat tax and the sales tax being discussed today is that both violate the principle of progressive taxation, resulting in significant tax savings for the rich and significant tax increases for the poor and middle class. Such a redistribution of the tax burden is bad economic policy, and I believe it is ethically deficient as well, violating our common sense of equity and justice.

Because of time-constraints, I will focus my comments on the national sales tax. Nation-wide, only Americans in the top 20% of income would benefit from converting from an income tax to a national sales tax. Everyone else would see their tax burden increase by an average of 50%.

Some national sales tax advocates have described the tax rates required in their proposals in a way that is simply misleading, creating an inaccurate perception that we could replace the current tax system with a national sales tax rate as low as 15 percent. The Joint Tax Committee, the Brookings Institution, Citizens for Tax Justice, and the Institute on Taxation and Economic Policy have all stated that in order to keep federal tax revenues constant, a 50-60% sales tax would be required – that is, a levy of \$50 to \$60 would be imposed on a \$100 purchase.

I'd like to draw your attention to the chart on the screen, which shows the grossly unfair redistributive effects of what HR 25 would do in my state of North Carolina. I know the supporters of HR 25 claim the bill's rebate will offset any regressive impact on the poor. The numbers in the chart include all of the rebates and assumptions in HR 25 with the only difference being that I'm using a true revenue-neutral tax rate of 50%. The reason the poor would be

negatively affected by this type of proposal is that they would lose the Earned Income Tax Credit and other income tax rebates they have under the current system.

In North Carolina, a working family in the bottom 20% income bracket makes on average \$9,100 a year. A national sales tax, assuming a 50 percent tax rate including the rebate but also eliminating the EITC, would increase their federal tax burden by \$4,214. For a family in the 20-40% income bracket making an average of \$19,700 a year, this national sales tax would increase their tax burden by \$4,013. For the middle 20%, their average tax burden would increase by \$3,811. For those in the 60-80% income bracket, their taxes would increase by \$2,935. Even North Carolinians in the 80-95% income bracket, making up to \$124,000 would see their taxes increase by \$600 a year.

So why are we even considering a tax proposal that would significantly raise taxes on 9 out of 10 Americans? The answer to that question can be found by following the money. The proponents of a national sales tax cannot deny that if low and moderate income people are paying more in taxes, then other people must be benefiting by paying less. North Carolinians making between \$124,000 and \$333,000 would see their tax burden *decrease* by an average of \$4,722 under a national sales tax, and those making over \$333,000 would see their tax burden decrease by an average of \$151,268.

Here are a few concrete examples of how North Carolinians would be affected by a national sales tax. The median cost of a house in North Carolina last year was \$110,000. A national sales tax would raise the cost of buying a new home in North Carolina to \$165,000, while at the same time eliminating the significant home-ownership tax incentive of being able to write off mortgage interest payments. It would raise the cost of a \$20,000 new car to \$30,000. It would raise a \$100 grocery bill to \$150, a \$200 bill for medication to \$300, and a gallon of gas from \$2.00 to \$3.00.

And seniors would be especially hard-hit because most are paying very little tax now because they have no income, but instead are spending down their savings and therefore would do much worse under the national sales tax than our current system.

It boggles the mind to imagine that any legislator would even consider such a policy, yet I am sad to say even some members of my own North Carolina delegation have expressed their support for this gross redistribution of the tax burden.

The tax proposals being considered today do not represent what is best for my constituents and my state; they do not represent what is best for our economy; they do not represent what is right; and we as the elected leaders can and should do much, much better.